

# OPEN MEETING ITEM

**COMMISSIONERS**  
BOB STUMP – Chairman  
GARY PIERCE  
BRENDA BURNS  
BOB BURNS  
SUSAN BITTER SMITH



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## ARIZONA CORPORATION COMMISSION

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2014 JUL -8 P 4. 14

AZ CORP COMMISSION  
DOCKET CONTROL

DATE: JULY 8, 2014  
DOCKET NO.: W-01654A-13-0267

ORIGINAL

TO ALL PARTIES:

Enclosed please find the recommendation of Administrative Law Judge Jane L. Rodda. The recommendation has been filed in the form of an Opinion and Order on:

### FARMERS WATER COMPANY (RATES)

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by filing an original and thirteen (13) copies of the exceptions with the Commission's Docket Control at the address listed below by **4:00** p.m. on or before:

JULY 17, 2014

The enclosed is NOT an order of the Commission, but a recommendation of the Administrative Law Judge to the Commissioners. Consideration of this matter has tentatively been scheduled for the Commission's Open Meeting to be held on:

JULY 22, 2014 and JULY 23, 2014

For more information, you may contact Docket Control at (602) 542-3477 or the Hearing Division at (602) 542-4250. For information about the Open Meeting, contact the Executive Director's Office at (602) 542-3931.

Arizona Corporation Commission

**DOCKETED**

JUL 8 2014

DOCKETED BY	
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JODI JERICH  
EXECUTIVE DIRECTOR

1200 WEST WASHINGTON STREET; PHOENIX, ARIZONA 85007-2927 / 400 WEST CONGRESS STREET; TUCSON, ARIZONA 85701-1347  
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This document is available in alternative formats by contacting Shaylin Bernal, ADA Coordinator, voice phone number 602-542-3931, E-mail [SABernal@azcc.gov](mailto:SABernal@azcc.gov).

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 **COMMISSIONERS**

3 BOB STUMP - Chairman  
4 GARY PIERCE  
5 BRENDA BURNS  
6 BOB BURNS  
7 SUSAN BITTER SMITH

8 IN THE MATTER OF THE APPLICATION OF  
9 FARMERS WATER COMPANY FOR A  
10 DETERMINATION OF THE CURRENT FAIR  
11 VALUE OF ITS UTILITY PLANT AND  
12 PROPERTY AND FOR INCREASES IN ITS  
13 RATES AND CHARGES FOR UTILITY SERVICE.

DOCKET NO. W-01654A-13-0267

DECISION NO. \_\_\_\_\_

14 **OPINION AND ORDER**

15 DATE OF HEARING:

May 8, 2014

16 PLACE OF HEARING:

Tucson, Arizona

17 ADMINISTRATIVE LAW JUDGE:

Jane L. Rodda

18 APPEARANCES:

Mr. Robert J. Metli, MUNGER CHADWICK,  
PLC, for Farmers Water Co.; and

19 Mr. Charles H. Haines and Mr. Mathew  
20 Laudone, Staff Attorneys, Legal Division, on  
21 behalf of the Utilities Division of the Arizona  
22 Corporation Commission.

23 **BY THE COMMISSION:**

24 \* \* \* \* \*

25 Having considered the entire record herein and being fully advised in the premises, the  
26 Arizona Corporation Commission ("Commission") finds, concludes, and orders that:

27 **FINDINGS OF FACT**

28 **Procedural History**

1. On August 2, 2013, Farmers Water Co. ("Farmers" or "Company") filed an application with the Commission for a rate increase.
2. On August 20, 2013, Farmers filed a Notice of Errata, correcting the rate schedules.
3. On August 30, 2013, the Commission's Utilities Division ("Staff") notified the Company that its application was sufficient as outlined in the Arizona Administrative Code

1 ("A.C.C.") R14-2-0103, and classified the Company as a Class B utility.

2 4. By Procedural Order dated September 12, 2013, the matter was set for hearing on May  
3 8, 2014, and other procedural deadlines established.

4 5. On November 21, 2013, Farmers filed a Notice of Filing Affidavit of Publication of  
5 Customer Notice and Affidavit of Mailing Customer Notice. Farmers published notice of the hearing  
6 in the October 16, 2013 edition of the *Green Valley News and Sun*, and mailed a copy of the notice to  
7 its customers on November 15 and 20, 2013.

8 6. On January 28, 2014, Farmers and Staff filed a Joint Motion to Modify Procedural  
9 Schedule, to modify the deadlines for filing testimony, which was granted by Procedural Order dated  
10 January 31, 2014. The hearing date did not change.

11 7. On March 6, 2014, Staff filed a Request for Modification to the Procedural Schedule,  
12 which was granted by Procedural Order dated March 6, 2014. The change only affected the dates to  
13 file direct and rebuttal testimony.

14 8. On March 7, 2014, Staff filed the Direct Testimony of Jian Liu, and on March 12,  
15 2014, filed the Direct Testimony of Crystal Brown.

16 9. On April 10, 2014, Farmers filed the Rebuttal Testimony of Heather Triana and  
17 Thomas Bourassa.

18 10. On April 25, 2014, Staff filed the Surrebuttal Testimony of Crystal Brown.

19 11. The parties appeared through counsel for a pre-hearing conference on May 5, 2014, to  
20 discuss the conduct of the hearing.

21 12. The hearing convened as scheduled on May 8, 2014, before a duly authorized  
22 Administrative Law Judge at the Commission's offices in Tucson, Arizona.

23 13. On June 2, 2014, Staff filed its Closing Brief.

24 14. On June 12, 2014, Farmers filed its Closing Brief.

25 15. On June 23, 2014, Staff filed notice that it would not be filing a Reply Brief.

26 16. The Commission did not receive written comments concerning the application, nor did  
27 anyone from the public appear at the hearing to provide public comment.

28 ...

1 **Background**

2 17. Farmers is a Class B utility engaged in providing public utility water service in  
3 portions of Pima County, Arizona in the vicinity of Sahuarita. In the test year ended September 30,  
4 2012 ("test year"), Farmers served approximately 2,725 customers.

5 18. Farmers is a Subchapter S corporation owned by Farmers Investment Company  
6 ("FICO"), which does business as the Green Valley Pecan Company, with a farm operation and a  
7 processing operation.<sup>1</sup> FICO is also a Subchapter S corporation with individual shareholders.<sup>2</sup>

8 19. Farmers operates four independent water systems:<sup>3</sup>

9 (a) The Sahuarita system serves approximately 91 connections in the community of  
10 Sahuarita and consists of two wells with a combined yield of 835 gallons per minute ("GPM"), a  
11 497,000 gallon storage tank, a 5,000 gallon pressure tank, and four booster pumps.

12 (b) The Continental system serves approximately 1,200 connections in the community  
13 of Continental and consists of four wells (one of which is not in service), with a combined capacity of  
14 1,125 GPM, five storage tanks with a combined capacity of 2,083,000 gallons, five pressure tanks,  
15 and 14 booster pumps.

16 (c) The Santa Rita Springs system serves approximately 1,338 connections in the  
17 Greens at Santa Rita Springs, the Springs at Santa Rita, and Sunrise Pointe, which are age-restricted  
18 subdivisions. This system consists of one well with a production capacity of 1,875 GPM, a 1,000,000  
19 gallon storage tank, two pressure tanks and three booster pumps.

20 (d) The Sahuarita Highlands system serves approximately 77 connections in the  
21 community of Sahuarita Highlands and consists of one well with a yield of 200 GPM, one 200,500  
22 gallon storage tank, one pressure tank, and three booster pumps.

23 20. Staff concluded that Farmers' systems have adequate production and storage capacity  
24 to serve existing customers and reasonable growth.<sup>4</sup>

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27 <sup>1</sup> Hearing Transcript ("Tr.") at 22.

<sup>2</sup> See Decision No. 71510 (March 17, 2010).

<sup>3</sup> Ex S-1 Liu Dir JWL at 1-5.

28 <sup>4</sup> Ex S-1 Liu Dir JWL at 6.

1           21.     The Arizona Department of Environmental Quality ("ADEQ") reported that Farmers'  
2 drinking water systems are currently delivering water that meets water quality standards required by  
3 40 C.R.F. 141 (National Primary Drinking Water Regulations) and A.A.C. Title 18, Chapter 4.<sup>5</sup>

4           22.     Farmers is located in the Tucson Active Management Area ("AMA") and is subject to  
5 the Arizona Department of Water Resources ("ADWR") reporting and conservation requirements.  
6 At the time of Staff's pre-filed testimony, ADWR was reporting that the Continental system was not  
7 in compliance with departmental requirements governing water providers and/or community water  
8 systems for failing to submit a system water plan. Staff recommended that any increase in rates and  
9 charges approved in this proceeding not become effective until the first day of the month following  
10 the Company's filing an updated ADWR Compliance Status Report indicating that the Company is in  
11 compliance with ADWR requirements.<sup>6</sup>

12           23.     At the hearing, Farmers offered evidence that it had submitted an updated water plan  
13 for the Continental system to ADWR,<sup>7</sup> and on May 29, 2014, the Company filed with Docket Control  
14 in this this matter, documentation from ADWR indicating that its Continental and Sahuarita  
15 Highlands systems are in compliance with ADWR requirements.

16           24.     Farmers has approved Curtailment and Backflow Prevention tariffs on file with the  
17 Commission.<sup>8</sup>

18           25.     Farmer's current rates were set in Decision No. 71510 (March 17, 2010).

19           26.     Staff reports that a review of records from January 1, 2011, through January 30, 2014,  
20 reflects only one complaint (involving a billing dispute) was filed in April 2011, and that it was  
21 resolved and closed.

22           27.     The Commission's Compliance database indicates that currently Farmers has no  
23 delinquencies.

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27 <sup>5</sup> Ex S-1 Liu Dir JWL at 7.

28 <sup>6</sup> Ex S-1 Liu Dir JWL at 9.

<sup>7</sup> Tr. at 15.

<sup>8</sup> Ex S-1 Liu Dir JWL at 10.

1 **Rate Request**

2 **Summary**

3 28. In its application, the Company reported total test year revenues of \$820,815, and total  
4 adjusted operating expenses of \$861,110, resulting in an operating loss of \$60,295, with a negative  
5 rate base of \$15,143. The Company initially requested a revenue increase of \$186,158, or 22.68  
6 percent, for a total revenue requirement of \$1,006,973, in order to achieve a 10 percent operating  
7 margin.<sup>9</sup>

8 29. Staff made no adjustments to the Company's reported test year rate base, and  
9 recommended adjustments to test year revenues of \$5,114, resulting in total adjusted test year  
10 revenues of \$825,929.<sup>10</sup> Staff recommended adjustments to test year expenses totaling \$22,353,  
11 which reduced operating expenses from \$881,110 to \$858,757.<sup>11</sup> Staff's adjustments resulted in an  
12 adjusted test year operating loss of \$32,829. Staff recommends a revenue increase of \$150,829, or  
13 18.26 percent, for a total revenue requirement of \$976,757 and operating income of \$97,700, based  
14 on a 10 percent operating margin.

15 30. In its Rejoinder Testimony, the Company accepted several of Staff's recommended  
16 adjustments and recognized an adjusted test year operating loss of \$39,920. The Company requested  
17 a revenue increase of \$160,082, or 19.38 percent, for a total revenue requirement of \$985,991 and  
18 operating income of \$98,599 based on a 10 percent operating margin.<sup>12</sup>

19 31. At the hearing, only two issues affecting operating expenses were in dispute: Staff's  
20 adjustments concerning salaries and wages and web-based banking fees.<sup>13</sup> More contentious were  
21 Staff's recommendation to segregate the Farmers' bank account from that of its parent, and Staff's  
22 recommendations to modify the Company's Equity Improvement Plan.

23 ...

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26 <sup>9</sup> Ex A-1 Application at 2; Ex A-4 Bourassa Dir at A-1.

27 <sup>10</sup> Ex S-2 Brown Dir at CSB-1.

<sup>11</sup> Ex S-3 Brown Surr at CSB-5.

<sup>12</sup> Ex A-7 Bourassa RJ at A-1.

28 <sup>13</sup> Ex A-7 Bourassa RJ at 4-6.

**Rate Base**

32. The parties are in agreement that Farmers' Original Cost Rate Base ("OCRB") was negative \$15,141 at the end of the test year.<sup>14</sup> Farmers did not submit Reconstruction Cost New less Depreciation schedules, and thus its OCRB is the same at its Fair Value Rate Base ("FVRB"). The evidence supports a finding that Farmers' FVRB in this proceeding is negative \$15,141.

**Operating Revenue and Expenses; Revenue Requirement**

33. The parties agree that test year revenues were \$825,929.<sup>15</sup>

34. The Company proposes adjusted test year operating expenses totaling \$865,850, resulting in a test year operating loss of \$39,921.<sup>16</sup> Staff recommends adjusted test year operating expenses of \$858,757, which results in a test year operating loss of \$32,828.<sup>17</sup>

**Salaries and Wages**

35. Staff recommends removing \$6,566 from salaries and wages expense because it represents the annual bonuses Farmers paid to employees in the test year. Staff argues that the bonuses are optional and not necessary to the provision of water utility service.<sup>18</sup>

36. Farmers argues that the bonuses paid are an integral part of its compensation package and are not based on individual performance. Ms. Triana testified that in her experience, the bonuses have never been held back and that employees have come to expect that the bonuses will be paid.<sup>19</sup> The amount represents 1/24<sup>th</sup> of the employee's annual pay and is received in December each year.<sup>20</sup>

37. In this case, the year-end bonus is not tied to performance goals. The evidence in this case supports a finding that the annual bonuses paid to employees are more like a part of their total compensation package than they are like optional performance bonuses. The total salaries and wages amount including the year-end bonus, is reasonable. As such, they are appropriately included in the salaries and wages expenses.

...

<sup>14</sup> Ex A-7 Bourassa RJ at 2. Farmers' Closing Brief at 3.

<sup>15</sup> Ex S-3 Brown Surr at CSB-5; Ex A-7 Bourassa RJ at C-1; Staff's Closing Brief at 2.

<sup>16</sup> Ex A-7 Bourassa RJ at C-1.

<sup>17</sup> Ex S-3 Brown Surr at CSB-5.

<sup>18</sup> Ex S-2 Brown Surr at 3-4; Staff's Closing Brief at 3.

<sup>19</sup> Tr. at 30.

<sup>20</sup> Tr. at 29.

1        **Miscellaneous Expenses – web-based banking fee**

2        38.     The Company included a pro forma expense of \$5,111 for web-based banking fees.  
 3        These fees are associated with the Company's implementation of a program that allows customers to  
 4        pay their bills on the website.<sup>21</sup> The fees were incurred from January 2013 to December 2013.<sup>22</sup> Staff  
 5        allowed \$3,586 of these fees and removed \$1,525 which is that portion of the total incurred more than  
 6        one year after the end of the test year.<sup>23</sup> Staff argues that its recommendation is appropriate and  
 7        consistent with Commission practice. Ms. Brown testified that "[t]he Commission generally limits  
 8        post-test year expenses to one year after the test year unless the expense is significant and/or has the  
 9        potential of creating a financial hardship for the Company."<sup>24</sup> Staff argues that disallowing \$1,525 is  
 10       not likely to cause financial hardship.<sup>25</sup> Staff believes that its position more accurately describes the  
 11       conditions Farmers will experience when the new rates go into effect, and notes that the Company  
 12       does not propose to adjust revenues to account for post-test year customer growth.<sup>26</sup>

13       39.     The Company argues that Staff's recommended web-based banking fee amount does  
 14       not reflect a full year of expense, and that the \$5,111 reflects the known and measurable annual  
 15       amount of the cost of providing this service.<sup>27</sup> According to Farmers, because Staff's  
 16       recommendation only reflects nine months of the actual fees incurred, it understates the fees that will  
 17       be incurred on a going-forward basis.<sup>28</sup>

18       40.     The on-line banking fees were implemented at customers' request and provide a  
 19       benefit to rate payers. We find that the annual costs of the web banking fees are a permissible and  
 20       reasonable pro forma adjustment to test year expenses. Although they began to be incurred three  
 21       months after the end of the test year, these fees are known and measureable and will be an on-going  
 22       expense. To allow only nine months of the actual costs that the Company will face during the period

23  
 24  
 25       <sup>21</sup> Tr. at 30.

26       <sup>22</sup> Ex A-6 Bourassa Reb at 5.

27       <sup>23</sup> Ex S-3 Brown Surr at 3.

28       <sup>24</sup> Ex S-3 Brown Surr at 5.

<sup>25</sup> Staff's Closing Brief at 3.

<sup>26</sup> Staff's Closing Brief at 3-4.

<sup>27</sup> Ex A-6 Bourassa Reb at 5-6.

<sup>28</sup> Farmers' Closing Brief at 4.



1 the new rates are in effect, would understate the expense. Consequently, we will allow the entire  
2 annual cost of \$5,111.

3 **Revenue Requirement**

4 41. Based on the foregoing, we find that in the test year, Farmers had total revenues of  
5 \$825,929, and total operating expenses of \$865,850, to produce an operating loss of \$39,921. The  
6 Company proposes a revenue increase of \$160,062, or 19.4 percent over test year revenues, to  
7 produce total revenues of \$985,991 and an operating income of \$98,599, based on a 10 percent  
8 operating margin. Staff recommends a revenue increase of \$150,829, or 18.7 percent, for total  
9 revenues of \$976,758 and an operating income of \$97,700, also based on a 10 percent operating  
10 margin.

11 42. Farmers argued that a minimum 10 percent operating margin is necessary so that the  
12 Company won't run operating deficits between rate cases which would degrade its financial health.<sup>29</sup>  
13 Mr. Bourassa stated that he could argue that 10 percent wasn't high enough, but that based on the  
14 information available at this time, he believes the 10 percent operating margin is sufficient to carry  
15 Farmers to the next rate case without running deficits.<sup>30</sup> Staff considered a lower operating margin,  
16 but ultimately believed the 10 percent operating margin would give the Company incentive to  
17 increase its equity and rate base.<sup>31</sup>

18 43. Just and reasonable rates are those sufficient to provide for the reasonable and  
19 necessary costs of operating the utility plus an opportunity to earn a fair return on the fair value of the  
20 plant put to public use. Using rate-of-return analysis to set rates when a utility has a negative rate  
21 base results in rates that cover operating expenses. Rate base can be negative for several reasons,  
22 including an aging system with fully depreciated plant, or as in this case, a decision to fund plant  
23 additions with Contributions in Aid of Construction ("CIAC") and Advances in Aid of Construction  
24 ("AIAC"). Because CIAC and AIAC represent funds not provided by shareholders to acquire plant,  
25 they are deductions in the calculation of rate base and shareholders are not afforded a return on CIAC  
26 and AIAC funded plant. In this case, the Company and Staff utilized operating margin as a substitute

27 <sup>29</sup> Farmers' Closing Brief at 2, citing Tr. at 83.

28 <sup>30</sup> Tr. at 97.

<sup>31</sup> Tr. at 118-19.

1 for rate-of-return to set the revenue requirement.<sup>32</sup> Two concerns when using an operating margin  
2 are that it does not provide a clear measure for determining a fair and reasonable revenue level and it  
3 does not provide an economic incentive for the Company to operate efficiently. To justify its  
4 requested revenue level, the Company states that it is concerned about avoiding operating losses until  
5 its next rate case. We find that it is not fair or reasonable to require ratepayers to pay almost  
6 \$100,000 on an unsupported assumption that operating expenses will substantially increase or  
7 revenues substantially fall, and that the use of an operating margin to determine the revenue to  
8 facilitate such excess recovery is inappropriate. Such reasoning presumes that the causes of recent  
9 operating losses have not been addressed in this proceeding or that the Company will not operate  
10 efficiently. After the last rate case, the Company analyzed and increased its corporate allocations  
11 when it was apparent that FICO was not appropriately charging Farmers for the all of the services it  
12 provided.<sup>33</sup> Given that experience, if the Company had believed that its test year expenses do not  
13 reflect its costs, it would have, and should have, argued this position at the hearing. Staff based its  
14 recommendation on the assumption that the Company should increase its rate base and equity.  
15 Encouraging this Company to make decisions that would move its rate base into positive territory is a  
16 worthy goal; however, subjecting ratepayers to higher than necessary rates for these purposes is not  
17 in the public interest, nor will it accomplish the goal if no additional plant investments are needed.  
18 Further, it could be argued that providing Farmers with an operating margin of 10 percent would be a  
19 disincentive to invest shareholder capital in plant, as the Company would receive a substantial return  
20 on an investment it didn't make. Rather than start with a pre-determined operating margin to arrive at  
21 the revenue requirement, the better approach is to use a cash flow analysis to ensure there is sufficient  
22 cash flow to cover contingencies and the need to invest in capital projects.

23 ...

24 ...

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25  
26 <sup>32</sup> To generate the operating income recommended by the parties under a fair value rate-of-return analysis, Farmers would  
27 need a rate base of close to \$1,000,000, assuming, for ease of illustration, a cost of capital of between 9.5 and 10 percent.  
28 In its application, the Company states that a rate increase is necessary to earn a reasonable return on the fair value of the  
Company's utility plant devoted to public service. Ex A-1 at 2. However, the net plant funded by the shareholder devoted  
to public service is a negative \$15,741.

<sup>33</sup> Ex A-4 Bourassa Dir at 4.

44. In the test year, Farmers had depreciation expense of \$255,898 and AIAC refunds of \$14,851. Farmers has no authorized long-term debt. Neither party asserted a need for higher revenue to make major capital improvements to ameliorate operating difficulties. We find that based on the circumstances and needs of this Company, a revenue requirement of \$927,524 which provides operating income of \$48,000, and yields annual free cash flow of \$289,047,<sup>34</sup> is sufficient to cover operating expenses, meet contingencies, provide an opportunity to invest internally generated funds in plant and build equity, encourage the Company to operate efficiently, as well as carry the Company for a reasonable period until its next rate case.

45. The revenue requirement approved herein is an increase of \$101,595, or 12.3 percent, over test year revenues.

#### Rate Design

46. Currently, under Farmer's rate design, minimum charges vary by meter size with no gallons included in the monthly charge, and commodity rates based on an inverted three-tiered design. The Company's current rates and charges are as follows:

#### MONTHLY USAGE CHARGE:

5/8" x 3/4" Meter	\$8.25
3/4" Meter	9.28
1" Meter	10.32
1 1/2" Meter	20.64
2" Meter	33.02
3" Meter	66.04
4" Meter	103.19
6" Meter	206.38
2 inch Construction/Standpipe (assigned)	33.02
6 inch Construction/Standpipe (assigned)	206.38

#### COMMODITY CHARGE – Per 1,000 Gallons

#### 5/8 x 3/4" Meter - Residential

0 - 4,000 gallons	\$1.35
4,001 to 10,000 gallons	1.90
Over 10,000 gallons	2.45

<sup>34</sup> \$48,000+\$255,898-14,851.

**5/8" Meter –Commercial, Industrial**

0 - 10,000 gallons	\$1.90
Over 10,000 gallons	2.45

**3/4" Meter - Residential**

0 - 4,000 gallons	\$1.35
4,001 to 10,000 gallons	1.90
Over 10,000 gallons	2.45

**1" Meter (all classes except construction/standpipe)**

0 - 12,500 gallons	\$1.90
Over 12,500 gallons	2.45

**2" Meter (all classes except construction/standpipe)**

0 - 40,000 gallons	\$1.90
Over 40,000 gallons	2.45

**3" Meter (all classes except construction/standpipe)**

0 - 80,000 gallons	\$1.90
Over 80,000 gallons	2.45

**4" Meter (all classes except construction/standpipe)**

0 - 126,000 gallons	\$1.90
Over 126,000 gallons	2.45

**6" Meter (all classes except construction/standpipe)**

0 - 250,000 gallons	\$1.90
Over 250,000 gallons	2.45

**2" construction or standpipe (individually assigned customer)**

0 - 40,000 gallons	\$1.90
Over 40,000 gallons	2.45

**2" construction or standpipe (no assigned customer)**

All gallons	\$2.45
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**6" construction or standpipe (individually assigned customer)**

0 - 250,000 gallons	\$1.90
Over 250,000 gallons	2.45

**6" construction or standpipe (no assigned customer)**

All gallons	\$2.45
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**SERVICE LINE AND METER INSTALLATION CHARGES:**

(Refundable pursuant to A.A.C. R14-2-40-5)

	<u>Service Line</u>	<u>Meter</u>	<u>Total</u>
3	5/8" x 3/4" Meter	\$385.00	\$135.00
	3/4" Meter	415.00	205.00
4	1" Meter	465.00	265.00
	1 1/2" Meter	520.00	475.00
5	2" Meter- Turbo	800.00	995.00
	2" Meter - Compound	800.00	1,840.00
6	3" Meter - Turbo	1,015.00	1,620.00
	3" Meter - Compound	1,135.00	2,495.00
7	4" Meter - Turbo	1,430.00	2,570.00
	4" Meter - Compound	1,610.00	3,545.00
8	6" Meter - Turbo	2,150.00	4,925.00
	6" Meter- Compound	2,270.00	6,820.00
9	8" Meter	Cost	Cost
10	10" Meter	Cost	Cost
11	12" Meter	Cost	Cost

**SERVICE CHARGE:**

13	Establishment	\$35.00
14	Establishment (After Hours)	50.00
	Reconnection (Delinquent)	40.00
15	Reconnection (Delinquent- After Hours)	55.00
	Meter Test (If Correct)	25.00
16	Deposit	**
	Deposit Interest	6%
17	Reestablishment (Within 12 Months)	*
18	NSF Check	\$20.00
	Deferred Payment - per month	1.5%
19	Meter Reread (If Correct)	\$20.00
	Late Payment Penalty - per month	1.5%
20	After Hours Service Charge - at	Cost
21	customers request	
	Meter Tampering Charge	Cost
22	Meter Box "Cut Lock" Charge	Cost
23	Hydrant Meter Deposit	\$150.00

\* Months off system times the monthly minimum per Commission rule A.A.C. R14-2-403(D).

\*\* Per Commission rule A.A.C. R-14-2-403(B).

\*\*\* 1% of Monthly Minimum for a Comparable Size Meter Connection, but no less than \$5.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct for the primary water service line.

47. In its final proposal, the Company adopts Staff's basic rate design, including the minimum monthly meter charges, such that the only difference between the Company and Staff are the rates for the second and third tiers of the commodity rates. The difference is due to the slight difference in their proposed revenue requirements.<sup>35</sup>

48. The Company did not request any changes in its service line and meter installation charges.<sup>36</sup> Staff recommended continued use of the Company's current meter and service line installation charges.<sup>37</sup>

49. The Company proposes to discontinue the "Re-establishment (After Hours)" charge and "Reconnection (Delinquent-After Hours) charge, and to add an "After Hours Charge" of \$35, that will be added to the regular service charge when a customer requests service after hours. Staff agrees with this change.<sup>38</sup>

50. We find the parties' basic rate design to be reasonable, and based on the revenue requirement adopted herein, we approve the following rates and charges:

**MONTHLY USAGE CHARGE:**

5/8" x 3/4" Meter	\$8.50
3/4" Meter	12.75
1" Meter	21.25
1 1/2" Meter	42.50
2" Meter	68.00
3" Meter	136.00
4" Meter	212.50
6" Meter	425.00
2 inch Construction/Standpipe (assigned)	68.00
3 inch Construction/Standpipe (assigned)	136.00
6 inch Construction/Standpipe (assigned)	425.00

**COMMODITY CHARGE – Per 1,000 Gallons**

**5/8 x 3/4" Meter - Residential**

0 - 3,000 gallons	\$1.35
3,001 to 10,000 gallons	1.90
Over 10,000 gallons	2.60

<sup>35</sup> Compare Farmers' Closing Brief at 5-7 with Ex S-3 Brown Surr CSB-15.

<sup>36</sup> Ex A-4 Bourassa Dir at H-3 3 of 3.

<sup>37</sup> Ex S-1 Liu Dir JWL at 10.

<sup>38</sup> Ex S-2 Brown Dir at 23.

**5/8" Meter -Commercial, Industrial**

0 - 10,000 gallons	\$1.90
Over 10,000 gallons	2.60

**3/4" Meter - Residential**

0 - 4,000 gallons	\$1.35
4,001 to 10,000 gallons	1.90
Over 10,000 gallons	2.60

**1" Meter (all classes except construction/standpipe)**

0 - 12,500 gallons	\$1.90
Over 12,500 gallons	2.60

**1" Meter (all classes except construction/standpipe)**

0 - 25,000 gallons	\$1.90
Over 25,000 gallons	2.60

**2" Meter (all classes except construction/standpipe)**

0 - 40,000 gallons	\$1.90
Over 40,000 gallons	2.60

**3" Meter (all classes except construction/standpipe)**

0 - 80,000 gallons	\$1.90
Over 80,000 gallons	2.60

**4" Meter (all classes except construction/standpipe)**

0 - 126,000 gallons	\$1.90
Over 126,000 gallons	2.60

**6" Meter (all classes except construction/standpipe)**

0 - 250,000 gallons	\$1.90
Over 250,000 gallons	2.60

**2" construction or standpipe (individually assigned customer)**

0 - 40,000 gallons	\$1.90
Over 40,000 gallons	2.60

**2" construction or standpipe (no assigned customer)**

All gallons	\$2.60
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**6" construction or standpipe (individually assigned customer)**

0 - 250,000 gallons	\$1.90
Over 250,000 gallons	2.60

**6" construction or standpipe (no assigned customer)**

All gallons	\$2.60
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**SERVICE LINE AND METER INSTALLATION CHARGES:**

(Refundable pursuant to A.A.C. R14-2-40-5)

	<u>Service Line</u>	<u>Meter</u>	<u>Total</u>
5/8" x 3/4" Meter	\$385.00	\$135.00	\$520.00
3/4" Meter	415.00	205.00	620.00
1" Meter	465.00	265.00	730.00
1 1/2" Meter	520.00	475.00	995.00
2" Meter- Turbo	800.00	995.00	1,795.00
2" Meter - Compound	800.00	1,840.00	2,640.00
3" Meter - Turbo	1,015.00	1,620.00	2,635.00
3" Meter - Compound	1,135.00	2,495.00	3,630.00
4" Meter - Turbo	1,430.00	2,570.00	4,000.00
4" Meter - Compound	1,610.00	3,545.00	5,155.00
6" Meter - Turbo	2,150.00	4,925.00	7,075.00
6" Meter- Compound	2,270.00	6,820.00	9,090.00
8" Meter	Cost	Cost	Cost
10" Meter	Cost	Cost	Cost
12" Meter	Cost	Cost	Cost

**SERVICE CHARGE:**

Establishment	\$35.00
Reconnection (Delinquent)	40.00
Meter Test (If Correct)	25.00
Deposit	**
Deposit Interest	6%
Reestablishment (Within 12 Months)	*
NSF Check	\$20.00
Deferred Payment - per month	1.5%
Meter Reread (If Correct)	\$20.00
Late Payment Penalty - per month	1.5%
After Hours Service Charge - at customers request	Cost
Meter Tampering Charge	Cost
Meter Box "Cut Lock" Charge	Cost
After Hours Charge (at customer's request)	\$35.00

\* Months off system times the monthly minimum per Commission rule A.A.C. R14-2-403(D).

\*\* Per Commission rule A.A.C. R-14-2-403(B).



1 \*\*\* 1% of Monthly Minimum for a Comparable Size Meter Connection, but no less than  
2 \$5.00 per month. The Service Charge for Fire Sprinklers is only applicable for service  
lines separate and distinct for the primary water service line.

3 In addition to the collection of regular rates, the utility will collect from its customers a proportionate  
share of any privilege, sales, use and franchise tax. Per Commission Rule R14-2-409D(5).

4 51. The rates approved herein increase the median 5/8 inch meter bill (based on usage of  
5 3,500 gallons per month) by \$0.52, or 4.05 percent, from \$12.98 to \$13.50; they increase the average  
6 5/8 inch meter bill (based on monthly usage of 5,336 gallons) by 0.80, or 4.94 percent, from \$16.19  
7 to \$16.99.

8 **Other Issues**

9 **Intercompany Transactions**

10 52. In the course of its audit, Staff discovered that FICO owed Farmers \$95,023 as of the  
11 end of the test year.<sup>39</sup> FICO and its various divisions, including Farmers, share a master bank  
12 account, with each division having a subaccount, and with each subaccount "rolling up" into the main  
13 account. If there is not enough money in Farmer's subaccount to cover an expense or capital  
14 investment, as long as there is sufficient money in the master account, the check will be covered and  
15 a payable will be created from Farmers to FICO. Alternatively, if FICO does not have sufficient  
16 money in its subaccount, but Farmers does, then a receivable is created to the benefit of Farmers.<sup>40</sup>  
17 During the hearing, it was discovered that as of March, 2014, FICO did not owe Farmers, but  
18 Farmers owed FICO approximately \$187,000.<sup>41</sup> In essence, Farmers' subaccount was over-drawn by  
19 this amount, with FICO covering Farmers' drafts.

20 53. Staff believes that the way the bank accounts are structured results in the  
21 commingling of funds. Staff recommends that the Company discontinue intermingling its banking  
22 relationship with FICO, and keep its funds in an entirely separate account held in its name, and that  
23 the Company stop creating inter-company receivables.<sup>42</sup>

24  
25  
26 <sup>39</sup> Ex S-2 Brown Dir at 12. Staff's Closing Brief at 5.

27 <sup>40</sup> See also Farmers' Closing Brief at 8.

28 <sup>41</sup> Tr. at 27 and 42.

<sup>42</sup> Staff's Closing Brief at 6. At the time of Staff's written testimony, FICO owed Farmers, and Staff recommended that the practice of recording receivables to FICO be discontinued and that the parent company repay the receivable in no more than two years. Ex S-2 Brown Dir at Exec Summary.

54. Staff does not believe that the common bank account and lack of restrictions on the creation of notes receivable and/or notes payable between Farmers and its parent are in the public interest.<sup>43</sup> Staff believes that the common bank account is exposed to the creditors and successful litigants against FICO or its other affiliates, and that even if Farmers might have legal remedies to undo any garnishment or levy on funds, the litigation risks and time necessary to resolve them outweigh the benefits Farmers may receive from the arrangement. Staff argues that the Commission's enactment of the Public Utility Holding Companies and Affiliated Interest Rules ("Affiliated Interest Rules" A.A.C. R14-2-802 *et seq.*) was intended to limit the risks of such dealings between affiliates, and that while the Affiliated Interest Rules only apply to Class A utilities (Farmers is a Class B utility), Staff believes that the spirit of these rules applies to the current situation.<sup>44</sup>

55. In was not until the hearing that Staff learned that the banking relationship between Farmers and FICO could result in a payable owed by Farmers to FICO, and that there were no restrictions on the repayment terms such that the outstanding obligation could extend longer than a year.<sup>45</sup> Staff contends that any debt carried for longer than one year is long-term debt, but states that it does not have sufficient information regarding the conditions that give rise to incurring accounts payable to FICO by Farmers to evaluate whether the payable in question is long-term debt that requires Commission approval.<sup>46</sup> In circumstances where there is unauthorized long-term debt, Staff typically recommends that the unauthorized debt be treated as paid-in-capital.<sup>47</sup> Staff believes that at such time as the payable to FICO can be confirmed as debt with a repayment period longer than one year, it should be treated as paid-in-capital.<sup>48</sup>

56. Farmers opposes Staff's recommendation to discontinue recording receivables between the Company and FICO because the Company believes it would destroy the efficiencies and cost savings Farmers enjoys as a result of its common banking relationship with FICO.<sup>49</sup> Farmers also claims that discontinuing receivables from the parent adversely affects Farmers' ability to access

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<sup>43</sup> Staff's Closing Brief at 6.

<sup>44</sup> *Id.*

<sup>45</sup> Staff's Closing Brief at 7.

<sup>46</sup> *Id.*

<sup>47</sup> Tr. at 146-47.

<sup>48</sup> Staff's Closing Brief at 7.

<sup>49</sup> Farmers' Closing Brief at 7.

1 funds in case of a cash shortfall. Farmers argues that it is in its financial interest to be part of the  
2 consolidated interconnected FICO banking relationship, as FICO is able to leverage its overall  
3 banking needs to obtain better pricing than if each entity/division had to have separate banking and  
4 loan funding. Farmers argues that with its past earnings history and current projected earnings, it  
5 would be impossible for it to obtain banking services at equivalent costs.<sup>50</sup> The Company states that it  
6 has accounting controls and audits that prevent Farmers from paying for obligations of its affiliates.<sup>51</sup>  
7 In addition, Farmers argues that as separate corporations, Farmers cannot be held liable for the acts of  
8 its parent, and that Arizona law prevents a garnishment or levy against Farmers as the result of a  
9 lawsuit against its parent.<sup>52</sup>

10       57. In response to the question of whether the payable to FICO is a long-term obligation  
11 that requires Commission approval pursuant to A.R.S. §40-302, Farmers argues that a receivable  
12 created in the ordinary course of operations does not require Commission approval.<sup>53</sup> In this case,  
13 Farmers asserts, the payable (or receivable) is a cash account, that changes throughout the year based  
14 on the need for funds for capital improvements and on revenue dips and spikes as customer usage  
15 fluctuates.<sup>54</sup> Farmers asserts that because of insufficient cash flow, some companies can have  
16 receivables that remain outstanding for longer than twelve months. Because Farmers is able to draft  
17 checks from its account even when its subaccount is negative, the Company claims that the  
18 receivable is like overdraft protection.<sup>55</sup>

19       58. There is no evidence that as the result of the interconnected banking arrangement that  
20 Farmers has been charged with paying the expenses of an affiliate.<sup>56</sup> However, the interconnected  
21 banking arrangement between FICO and Farmers exposes the utility to unnecessary risk. Public  
22 service corporations should have their own separate banking facilities. The issue is not merely the  
23 commingling of funds and ensuring that expenses are properly allocated (although this is important),  
24 but protecting the utility from the activities of the unregulated parent or affiliates. Even if the utility

25 <sup>50</sup> Farmers' Closing Brief at 11.

26 <sup>51</sup> Farmers' Closing Brief at 10.

27 <sup>52</sup> Farmers' Closing Brief at 10-11.

28 <sup>53</sup> Farmers' Closing Brief at 11.

<sup>54</sup> Farmers' Closing Brief at 11; Tr. at 25, 44-46, 65.

<sup>55</sup> Farmers' Closing Brief at 12.

<sup>56</sup> Tr. at 138.

1 cannot be held liable for the actions of its parent, it is not clear that Farmers' subaccount as part of the  
 2 master banking account owned by its parent is immune from judgment. As Staff points out, the  
 3 intermingled accounts also make Staff's audits more difficult.<sup>57</sup> Many other utilities are able to  
 4 operate with stand-alone bank accounts and overdraft protection. The reasonable additional costs  
 5 associated with its own banking arrangements are appropriately included in the operating expenses of  
 6 the utility and eligible for recovery in rates.<sup>58</sup> We do not find that the alleged benefits of the  
 7 arrangement outweigh the risks; therefore, we adopt Staff's recommendation. Staff did not  
 8 recommend a time frame for the separation. We acknowledge that implementing separate banking  
 9 facilities will affect existing accounting systems and procedures and may require some time to  
 10 implement. Because there is no evidence that Farmers has been disadvantaged by the arrangement to  
 11 date, we will require Farmers to institute separate banking arrangements by June 30, 2015, and zero  
 12 out any payables between the Company and its parent, by June 30, 2016.

### 13 Equity Improvement Plan

14 59. In Decision No. 71510, because the Company had a negative rate base, and the  
 15 Commission was unable to set rates based on fair value, Farmers was ordered to file an equity  
 16 improvement plan in order to reach a more balanced capital structure. On March 4, 2011, Farmers  
 17 filed an Equity Improvement Plan setting forth the following:

- 18 1. Because all equity growth will come from internally generated Retained  
 19 Earnings derived from Operating Income, the Company will attempt to  
 20 maintain the operating margin authorized by the Commission by filing new  
 21 rate applications as often as practical and necessary.
- 22 2. File emergency rate applications as necessary when the Company incurs  
 23 significant, prudent and necessary expenses but does not have the ability to  
 24 pay, while maintaining the authorized operating margin.

25  
 26  
 27 <sup>57</sup> Tr. at 138-39.

28 <sup>58</sup> The creation of an \$187,000 overdraft (to use the Company's term) suggests that Farmers needs to improve its cash management. Even with an operating loss of \$39,920 in the test year, with depreciation expense of \$255,898 and AIAC refunds of \$14,857, Farmers had free cash flow of \$201,127.

3. Reinvest available Operating Income in new plant and equipment. This has the equally important benefit of increasing Rate Base.
4. The Company will limit reliance on developer funded plant (contributions and advances) and invest its own capital where feasible.
5. Apply for Accounting Order(s) as necessary, to defer prudent and necessary expenses for consideration of recovery in subsequent rate cases.
6. While the Company has typically not paid cash dividends above the amount necessary to reimburse shareholders for income taxes on the distributive share of the income from the Company, the Company will continue to suspend cash dividends beyond that amount.

60. Staff alleges that the Company's equity balance has worsened because of a continued reliance on AIC and CIAC to fund plant additions. Staff asserts that the Equity Improvement Plan has not worked and has recommended additional conditions. Staff believes that the Commission needs to issue a more specifically defined decree in order to make its expectations clear that the Company is to identify specific equity improvement targets. Staff recommends that the directive include the following targets:

- (a) The Company's rate base should have 20 percent equity within five years;
- (b) The Company's rate base should have 30 percent equity within seven years; and
- (c) The Company's rate base should have 40 percent equity within ten years.<sup>59</sup>

61. In addition, Staff recommends that the Commission direct the Company to specifically include paid-in-capital, in addition to the internally generated retained earnings, as part of its future plan to build equity and fund plant additions. Staff states that such plan could include a requirement that the Company fund AIAC refunds through additional paid-in-capital or accelerate AIAC refunds.<sup>60</sup>

62. Staff advises the Company that if the relevant targets are not met by Farmers' next rate case, it will recommend that "if the Company has a negative or zero rate base in its next rate case,

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<sup>59</sup> Ex S-2 Brown Dir at 17.

<sup>60</sup> Tr. at 75.

1 that the Company's revenue requirement should be set to break-even, i.e. zero percent operating  
 2 margin. If the Company has a small rate base, the revenue requirement should be based on operating  
 3 margin or rate-of return, whichever is less. The Company's revenue requirement should be based on  
 4 rate-of-return if the Company has sufficient rate base."<sup>61</sup>

5 63. The Company disputes Staff's assertion that the Equity Improvement Plan has not  
 6 worked, and states that it has followed the Equity Improvement Plan with positive and meaningful  
 7 results.<sup>62</sup> The Company asserts that since the last rate case, rate base improved by over \$733,000  
 8 from a negative \$748,646 in Decision No. 71510, to a negative \$15,141 in this proceeding. Farmers  
 9 states that it accomplished the improvement by using \$1.6 million of its own capital for plant  
 10 improvements since the last rate case.<sup>63</sup> Further, the Company claims that its equity balance has  
 11 improved from a negative \$440,202 in the last rate case to \$125,437 in this case, despite several years  
 12 of net losses.<sup>64</sup> The Company argues that Staff's recommendations that the Company's rate base  
 13 should have 20 percent equity within 5 years, 30 percent equity within 7 years, and 40 percent equity  
 14 within 10 years are arbitrary benchmarks that are not entirely within the Company's control.<sup>65</sup>

15 64. The Company notes that it has not used its cash flow for dividends, but has invested  
 16 its cash into plant.<sup>66</sup> It claims that making AIAC refunds through additional paid-in-capital or adding  
 17 paid-in-capital to an annual level of CIAC amortization do little, if anything, to improve rate base or  
 18 the percentage of equity in its capital structure.<sup>67</sup>

19 65. In the last rate case, Farmers' rate base was a negative \$748,646.<sup>68</sup> In the current test  
 20 year, its rate base is negative \$15,141. Progress has been made. Although the parties disagree on  
 21 whether equity has improved or diminished since the last rate case, they agree that at the end of the  
 22 test year, Farmers' equity was \$125,427.<sup>69</sup> Equity is created through retained earnings or equity  
 23 infusions from the sale of stock or contributions of additional paid-in-capital. Rate base is created by

24 <sup>61</sup> Ex S-3 Brown Surr at 14.

25 <sup>62</sup> Ex A-6 Bourassa Reb at 10.

26 <sup>63</sup> Ex A-6 Bourassa Reb at 10-11.

27 <sup>64</sup> Ex A-6 Bourassa Reb at 11.

28 <sup>65</sup> Farmers' Closing Brief at 13. Ex A-6 at 11.

<sup>66</sup> Tr. at 77.

<sup>67</sup> Farmers' Closing Brief at 14.

<sup>68</sup> Decision No. 71510 at 7.

<sup>69</sup> Ex S-3 Brown Surr at 12-13.

1 using investor funds – either internally generated cash flow, or new capital – to install new plant that  
2 is put in service to serve the public. Targets to achieve certain equity benchmarks, alone, will not  
3 assist the goal of reaching a reasonable rate base or a more balanced capital structure. Thus, requiring  
4 shareholders to contribute additional capital without a use for the funds will not increase rate base. As  
5 the Company retains earnings and uses its cash flow (or shareholder equity infusions if needed) to  
6 fund new plant, both rate base and equity will improve. We agree with Staff, however, that Farmers’  
7 current Equity Improvement Plan does not recognize FICO’s role, as the shareholder, in achieving a  
8 balanced capital structure. The first point of the Equity Improvement Plan begins:

9           Because all equity growth will come from internally generated Retained Earnings  
10           derived from Operating Income . . .”

11 The fourth point states:

12           The Company will limit reliance on developer funded plant (contributions and  
13           advances) and invest its own capital where feasible.

14 Point one says in essence that any equity growth comes courtesy of the ratepayers, and the use of  
15 “where feasible” in the fourth point is ambiguous, and could suggest that the Company will only use  
16 equity when there is sufficient liquidity provided by ratepayers. The two points together are not clear  
17 about the use of additional paid-in-capital. The Equity Improvement Plan should also recognize, and  
18 be amended to reflect, that if internally generated cash flow is inadequate to fund capital projects  
19 necessary to provide safe and reliable service, the Company’s shareholder(s) will contribute equity to  
20 achieve a balanced capital structure that is not over-reliant on CIAC or AIAC. We direct Farmers to  
21 file a revised Equity/Rate Base Improvement Plan that acknowledges the role of additional paid-in-  
22 capital when internally generated funds are not sufficient for needed capital projects. We will not  
23 direct the specific use of funds or require Farmers’ shareholder to contribute paid-in-capital to  
24 accelerate AIAC or replace amortizing CIAC at this time. In the next rate case, we expect Staff will  
25 make such recommendations as it believes are reasonable based on the facts and circumstances  
26 present at the time.

27 ...

28 ...

1        **Non-account Water**

2        66.     Staff determined the non-account water for each of the Company's systems based on  
3 the gallons pumped and gallons sold as provided by the Company for the test year. For the Sahuarita  
4 system, the gallons sold exceeded the gallons pumped, which suggests a problem with the water use  
5 data; the Continental system had test year water loss of 10.21 percent; the Santa Rita Springs system  
6 had a water loss of 5.64 percent in the test year; and the Sahaurita Highlands system had a water loss  
7 of 22.14 percent. Staff states that non-account water should be 10 percent or less and never more than  
8 15 percent, and that it is important to be able to reconcile the difference between water sold and water  
9 produced by the source, as a water balance will allow a water company to identify water and revenue  
10 losses due to leakage, theft, and flushing.<sup>70</sup>

11        67.     Staff recommends that Farmers monitor the Sahuarita water system and submit the  
12 gallons pumped and sold to determine the non-account water for one full year. Staff states that the  
13 Company should coordinate when it reads the well meters each month with customer billing so that  
14 an accurate accounting is determined. Staff proposes that the results of this monitoring and reporting  
15 should be docketed as a compliance item in this case within 13 months of the effective date of the  
16 order issued in this proceeding; and if the reported water loss is greater than 10 percent the Company  
17 should prepare a report containing a detailed analysis and plan to reduce water loss to 10 percent or  
18 less. Staff recommends that if the Company believes it is not cost effective to reduce the water loss  
19 to less than 10 percent, it should submit a detailed cost benefit analysis to support its opinion.  
20 According to Staff, in no case should the Company allow water loss to be greater than 15 percent.  
21 Staff stated that the water loss reduction report or the detailed analysis, whichever is submitted,  
22 should be docketed as a compliance item within 13 months of the effective date of the order issued in  
23 this proceeding.

24        68.     Staff recommends that Farmers prepare a report containing a detailed analysis and  
25 plan to reduce water loss to 10 percent or less for its Continental and Sahuarita Highlands water  
26 systems. Staff also recommends that the water loss reduction report should be docketed as a  
27

28        <sup>70</sup> Ex S-1 Liu Dir Ex JWL at 6.



1 compliance item within 90 days of the effective date of the order issued in this proceeding. Staff  
2 indicated that if the Company believes it is not cost effective to reduce the water loss to less than 10  
3 percent, it should submit a detailed cost benefit analysis to support its opinion. In no case should the  
4 Company allow water loss to be greater than 15 percent.

5 69. The Company did not object to Staff's recommendations. We find that they are  
6 reasonable and should be adopted in this case.

7 **BMPs**

8 70. Staff states that Farmers does not have any Commission-approved Best Management  
9 Practices ("BMP") tariffs. Staff recommends that the Company be required to file with Docket  
10 Control, as a compliance item in this docket, within 90 days of the effective date of this Decision, at  
11 least seven BMPs in the form of tariffs that substantially conform to the templates created by Staff for  
12 the Commission's review and consideration. The templates created by Staff are available on the  
13 Commission's website at <http://www.azcc.gov/Divisions/Utilities/forms.asp>. Staff states that  
14 Farmers may request cost recovery of actual costs associated with the BMPs implemented in its next  
15 general rate application.<sup>71</sup>

16 71. The Company did not object to implementing the BMPs.<sup>72</sup> BMPs are created by  
17 ADWR as part of a program to help and encourage consumers and water companies conserve water.  
18 Even though Farmers is located in an AMA, the record does not indicate if the Company has BMPs  
19 or a public education plan on file with ADWR. We expect Farmers to comply with ADWR's  
20 requirements for BMPs for a utility of its size. Because we do not believe that duplicitous regulation  
21 is in the public interest, we will not require Farmers to file BMP tariffs if it already has approved  
22 BMPs with ADWR. Adopting BMPs and a public education program to assist customers with ways  
23 to save water is in the public interest. Within 90 days of the effective date of this Order, Farmers  
24 should file evidence with Docket Control in this docket that it is in compliance with ADWR  
25 requirements concerning BMPs and a public education program. Alternatively, if BMPs are not  
26 required for Farmers by ADWR, Farmers should file with Docket Control, as a compliance item in

27 \_\_\_\_\_  
28 <sup>71</sup> Ex S-1 Liu Dir Ex JWL at 10.

<sup>72</sup> Tr. at 17.

1 this docket, within 90 days of the effective date of this Decision, the number of BMPs ADWR would  
2 otherwise require of a company of its size in the form of tariffs.

3 **CONCLUSIONS OF LAW**

4 1. Farmers is a public service corporation within the meaning of Article XV of the  
5 Arizona Constitution and A.R.S. §§ 40-250 and 40-251.

6 2. The Commission has jurisdiction over Farmers and the subject matter of the Rate  
7 Application.

8 3. Notice of the Rate Application was provided in the manner prescribed by law.

9 4. The rates and charges authorized herein are just and reasonable and should be  
10 approved.

11 **ORDER**

12 IT IS THEREFORE ORDERED that Farmers Water Company shall file with Docket Control,  
13 as a compliance item in this docket, by July 31, 2014, revised rate schedules that comply with the  
14 rates and charges approved herein.

15 IT IS FURTHER ORDERED that the authorized rates and charges shall be effective for all  
16 service provided on and after August 1, 2014.

17 IT IS FURTHER ORDERED that Farmers Water Company shall notify its customers of the  
18 rates and charges authorized herein, and their effective date, in a form acceptable to the  
19 Commission's Utilities Division Staff, by means of an insert in its next regularly scheduled billing or  
20 as a separate mailing.

21 IT IS FURTHER ORDERED that, in addition to the collection of its regular rates and  
22 charges, Farmers Water Company shall collect from its customers a proportionate share of any  
23 privilege, sales or use tax per A.A.C. R14-2-409(D).

24 IT IS FURTHER ORDERED that Farmers Water Company shall separate its bank account  
25 from that of its parent by June 30, 2015, and zero out any payables between the two companies by  
26 June 30, 2016, and shall by July 31, 2015, as a compliance item in this Docket, file an  
27 acknowledgement signed by a corporate officer confirming the separation has been completed.

28 ...

1 IT IS FURTHER ORDERED that Farmers Water Company shall monitor the Sahuarita water  
2 system and submit the gallons pumped and sold to determine the non-account water for one full year,  
3 as recommended by Staff in this proceeding, and shall docket a report of the results of its monitoring  
4 as a compliance item in this docket within 13 months of the effective date of this Order. If the  
5 reported water loss is greater than 10 percent, Farmers Water Company shall prepare a report  
6 containing a detailed analysis and plan to reduce water loss to 10 percent or less. If Farmers Water  
7 Company believes it is not cost effective to reduce the water loss to less than 10 percent, it should  
8 submit a detailed cost/benefit analysis to support its opinion. In no case shall Farmers Water  
9 Company allow water loss to be greater than 15 percent. The water loss reduction report or the  
10 detailed analysis, whichever is submitted, shall be docketed as a compliance item within 13 months  
11 of the effective date of this Order.

12 IT IS FURTHER ORDERED that Farmers Water Company shall prepare a report containing  
13 a detailed analysis and plan to reduce water loss to 10 percent or less for its Continental and Sahuarita  
14 Highlands water systems. The water loss reduction report shall be docketed as a compliance item  
15 within 90 days of the effective date of this Order. If Farmers Water Company believes it is not cost  
16 effective to reduce the water loss to less than 10 percent, it should submit a detailed cost benefit  
17 analysis to support its opinion.

18 IT IS FURTHER ORDERED that Farmers Water Company shall file with Docket Control, as  
19 a compliance item in this docket, within 90 days of the effective date of this Decision, either evidence  
20 that it has BMPs on file with the Arizona Department of Water Resources, or file with Docket  
21 Control at least the number of BMPs that would otherwise be required by the Arizona Department of  
22 Water Resources for companies of Farmers Water Company's size, and a public education program,  
23 in the form of tariffs that substantially conform to the templates created by Staff for the  
24 Commission's review and consideration.

25 ...

26 ...

27 ...

28 ...

IT IS FURTHER ORDERED that Farmers Water Company shall file as a compliance item in this docket within 90 days of the effective date of this Order, a revised Equity/Rate Base Improvement Plan that acknowledges the role of additional paid-in-capital in attaining and maintaining a more balanced capital structure, as more fully described herein.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, JODI JERICH, Executive Director of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this \_\_\_\_\_ day of \_\_\_\_\_ 2014.

JODI JERICH  
EXECUTIVE DIRECTOR

DISSENT \_\_\_\_\_

DISSENT \_\_\_\_\_

JR:tv

1 SERVICE LIST FOR: FARMERS WATER COMPANY

2 DOCKET NO.: W-01654A-13-0267

3

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